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**Date:** 5/3/2010

**GAIN Report Number:** IT1025

## **EU-27**

### **Cotton and Products Annual**

#### **EU-27 Cotton Annual**

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**Report Highlights:**

The EU is a minor producer and consumer of cotton. EU cotton production, which has declined about 50% since the 2006 reforms, represents less than 1% of world production. MY 2010/11 production is expected to increase marginally. EU cotton consumption and imports continue to decline as the EU industry remains uncompetitive. EU cotton exports are forecast to decrease slightly from MY 2009/10 levels. While exports from both Greece and Spain are forecast to increase (due both to greater production and reduced EU import demand), exports of stocks from non-cotton producing EU Member States is expected to moderate, resulting in an overall decline in EU cotton exports.

**Commodities:**

Select

**Production:****EU Cotton Lint**

This report presents the outlook for Cotton and Products in the EU-27, based on unofficial data.

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**Production**

The European Union (EU) is a minor producer of raw cotton. Current EU cotton policy is detailed in Regulation 1782/2003, revised by Regulation 864/2004, and amended by Regulation 637/2008. EU cotton production has declined by more than 50% following Common Agricultural Policy (CAP) reforms effective in 2006 that decoupled payments and reduced support and market barriers for a number of crops, including cotton (see “*Study on the Cotton Sector in the European Union*” at [www.lmc.co.uk](http://www.lmc.co.uk)). Production may stabilize over through 2013 when additional reforms are expected to be implemented that could further reduce incentives for cotton production.

The EU does not permit farmers to cultivate biotech cotton. Only two EU Members States, Greece (90 percent) and Spain (10 percent), grow significant amounts of cotton commercially. MY 2009/10 EU harvested area equaled about 257,000 hectares or less than 1 percent of the world’s total harvested area. MY 2009/10 EU lint production totaled about 220,000 metric tons (MT) or less than 1 percent of the world’s total lint production.

**Greece:** MY 2009/10 area declined in Greece as farmers shifted away from cotton to more attractive crops. MY 2010/11 area and production are expected to increase slightly as farmers shift back from durum wheat and corn to cotton due to disappointing returns.

**Spain:** Spain's cotton area is chiefly located in the region of Andalusia, although there is some minimal production located in Murcia and Extremadura. For MY 2009/10, there were approximately 5,900 Spanish farmers involved in cotton cultivation. Cotton is grown in some of the best agricultural land, competing with other irrigated crops such as corn and, to a lesser extent, forage.

MY 2009/2010 production is estimated at 77,000 tons of seed cotton. Consequently, cotton gins must adapt their capacity to the lower raw cotton production level, and the number of cotton gins in Spain has decreased from 28 in MY 2006/07 to 7 in 2010/11.

Water availability, low prices for alternative crops such as corn, and the total decoupling of the direct payment for arable crops led to recovery in cotton production for MY 2010/2011—

as support continues to be linked to production. Spanish cotton yields for MY 2010/2011 year are projected to be at normal levels since irrigation restrictions are not expected to be implemented.

#### **Cotton PS&D's**

<b>GREECE</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Area Harvested (1000 Hectares)	250	200	230
Beginning Stocks (1000 480-lb Bales)	366	229	65
Production (1000 480-lb Bales)	1,150	900	1,125
Imports (1000 480-lb Bales)	20	20	20
TOTAL Supply (1000 480-lb Bales)	1,536	1,149	1,210
Exports (1000 480-lb Bales)	1,032	900	975
Use (1000 480-lb Bales)	225	150	150
Loss (1000 480-lb Bales)	50	34	25
TOTAL Dom Cons (1000 480-lb Bales)	275	184	175
Ending Stocks (1000 480-lb Bales)	229	65	60
Total Distribution (1000 480-lb Bales)	1,536	1,129	1,210
Source: FAS Athens estimates			

<b>SPAIN</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Area Harvested (1000 Hectares)	53	56	62
Beginning Stocks (1000 480-lb Bales)	22	22	22
Production (1000 480-lb Bales)	79	110	185
Imports (1000 480-lb Bales)	150	119	105
TOTAL Supply (1000 480-lb Bales)	251	251	312

Exports (1000 480-lb Bales)	102	102	167
Use (1000 480-lb Bales)	109	109	105
Loss (1000 480-lb Bales)	18	18	18
TOTAL Dom Cons (1000 480-lb Bales)	128	128	123
Ending Stocks (1000 480-lb Bales)	22	22	22
Source: FAS Madrid estimates			

<b>EU-27</b>	<b>2008/09</b>	<b>2009/10</b>	<b>2010/11</b>
Area Harvested (1000 Hectares)	304	257	293
Beginning Stocks (1000 480-lb Bales)	740	502	235
Production (1000 480-lb Bales)	1230	1010	1250
Imports (1000 480-lb Bales)	1100	925	850
TOTAL Supply (1000 480-lb Bales)	3070	2437	2335
Exports (1000 480-lb Bales)	1300	1100	1150
Use (1000 480-lb Bales)	1200	1050	1000
Loss (1000 480-lb Bales)	68	52	43
TOTAL Dom Cons (1000 480-lb Bales)	1268	1102	1043
Ending Stocks (1000 480-lb Bales)	502	235	142
Total Distribution (1000 480-lb Bales)	3070	2437	2335
Source: FAS Rome estimates			

Detailed PS&D information for all EU MS may be found at: <http://www.fas.usda.gov/cots/cotton.asp>

### **Consumption:**

Total MY 2009/10 EU cotton consumption is estimated at about 225,000 MT or less than 1 percent of the world's total cotton consumption. Italy, Greece, Portugal, and Germany account for about 70 percent of consumption. Stiff competition from lower-cost Asian and South East Asian spinners has resulted in a steady decline in the EU spinner and textile industries, which was accelerated by the global financial crisis. This declining trend is expected to continue for the foreseeable future. As a result, EU textile and apparel processors source most of their products offshore. Some EU processors split production between the EU and third countries to take advantage of marketing opportunities. In Italy, for example, goods sourced overseas may carry the 'Made in Italy' label provided more than 50 percent of the value was added in Italy. Cotton Council International works with EU entities to source products made with U.S. cotton.

### **Trade:**

Exportable EU cotton supplies have increased as EU cotton consumption has decreased. MY 2010/11 EU exports are forecast at 1.15 million bales or about 3 percent of world exports, of which Greece is expected to export about 975,000 bales, with most of the remainder from Spain. Turkey and Egypt represent about 80 percent of the

export market for EU cotton. EU cotton import demand has declined about 50% during the past two years to about 150,000 tons. This downward trend is expected to moderate assuming the EU industry stabilizes. There are no restrictions on importing lint or products produced from biotech cotton.

<b>Estimated EU Cotton Imports (Metric Tons) (MY Aug-Jul)</b>				
	2007/08	2008/09	Aug-Dec.08	Aug-Dec.09
<b>Total</b>	274,760	157,090	67,399	60,527
U.S.	31,398	12,846	6,182	2,359
Turkey	21,008	18,932	6,633	9,467
Kazakhstan	48,749	12,159	7,173	9,574
Uzbekistan	30,264	18,470	10,508	3,981
Tajikistan	23,864	8,903	3,715	1,425
Pakistan	10,526	10,595	4,655	4,449
India	6,278	5,808	1,553	3,295
Egypt	8,442	2,339	1,337	1,325
Chad	9,961	7,766	3,616	1,800
Zimbabwe	8,848	7,126	2,506	4,556
Brazil	5,793	12,390	4,862	3,746

Source: GTA

<b>Estimated EU Cotton Exports (Metric Tons) (MY Aug-Jul)</b>				
	2007/08	2008/09	Aug.-Dec.08	Aug.Dec09
<b>Total</b>	176,583	284,229	87,272	104,305
Turkey	83,401	138,421	38,226	80,838
Egypt	52,894	74,666	23,906	7,522
Morocco	9,816	9,258	3,516	2,473
Indonesia	5,761	16,026	2,620	2,899
Pakistan	10,504	12,228	3,717	2,187

Source: GTA

### **Stocks:**

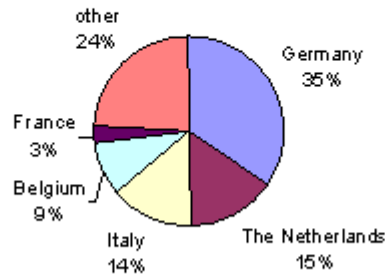
Ending stocks for MY 09/10 are expected to be close to zero as the Greek financial crisis and prospects for a weaker Euro are unlikely to provide incentives to hold stocks.

### **Author Defined:**

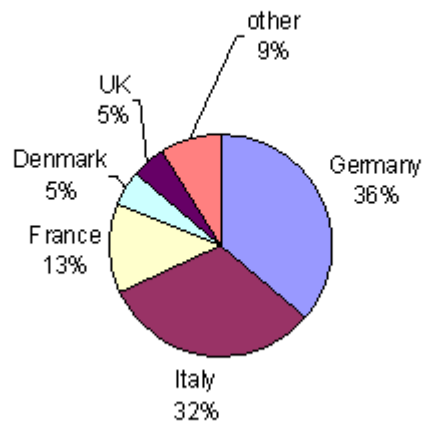
#### **EU Cotton Products**

Major European textile and apparel producers include Germany and Italy. Textile production across Western Europe is in a state of decline due to lower manufacturing costs in Eastern Europe, Asia, and elsewhere.

**Regional distribution of textile companies in Europe**  
(top 83 companies with an annual turnover of 50 million Euro and above)



**Regional distribution of apparel companies in Europe**  
(top 131 companies with an annual turnover of 75 million Euro and above)



Source: Annual report of the German textile and fashion confederation  
“textile + modewelt 2009+2010”, p 6.

### **Germany**

Tough competition from low-cost producing countries has forced Germany's textile and apparel industry to move production facilities to countries in Eastern Europe and Asia. Cotton spinning and weaving companies have also followed this relocation trend, albeit with a modest time lag. These factors have led to a decline in domestic use and an overall decrease in raw cotton imports. The profitability of the domestic textile sector is mostly limited to niche markets and technical uses.

Although raw cotton imports to Germany are decreasing, it is still important for the U.S. cotton sector to maintain its presence in this valuable market. Marketing efforts should be targeted to consumers and retail establishments to highlight the use of U.S. cotton in

finished products rather than promoting raw cotton use in the declining spinning and weaving sectors. In addition, German companies that have relocated primary production of yarn and fabric to other countries are still taking major decisions such as designs and raw material sourcing in their headquarters in Germany and could be a target of U.S. marketing efforts.

The value of total turnover of the German textile industry (includes yarn and fabric, excludes apparel) amounted to €8 billion Euro (\$11.1 billion) in CY 2009, a drop of 18 percent compared to CY 2008. The turnover of apparels amounted to €6.6 billion (\$9.2 billion), a drop of 11 percent. For 2010, the industry expects that the worst of the financial crisis is over and the trend of declining consumption and resulting reduced production will cease.

In MY 2008/09 Germany imported cotton yarn (HS codes 5204, 5205, 5207) at a value of \$189 million compared to \$274 million in MY2007/08. The top five suppliers included India, Italy, Turkey, the Czech Republic, and Greece. German imports of fabric (HS code 5208 and 5209) were worth \$524 million compared to \$758 million in MY 2007/08. The top five suppliers included Italy, Austria, Pakistan, Turkey, and China.

### **Italy**

Last year was one of the worst years of the past two decades for the Italian textile and fashion industry, with a dramatic drop in production and turnover. The slowdown in textiles, which began at the end of 2007, continued through 2008 and 2009, with only very limited recent signs of recovery. In 2009 overall turnover declined by more than 20 percent for all textiles, 12 percent for clothing, and 15 percent for the fashion industry.

The textile, clothing, and fashion industries also saw similar declines in domestic production, including 20 percent for the textile sector and 12 percent for the clothing and fashion industries. The clothing and fashion industries have suffered from a sharp reduction in import demand in all leading destination markets, driven primarily by the global economic crisis. Italian exports of textiles, clothing, and fashion declined by 20 percent in 2009 including a reduction of 17 percent for exports to the EU and 22 percent for exports to non-EU countries.

### **Spain**

Since the liberalization of cotton trade in 2005, national textile production has been affected by increased competition from third countries, especially those with a long tradition of cotton production and processing. Spain's finished textile products can be classified in three groups: household linen and bed linen, clothes, and fabrics for industrial purposes. The category of products most affected by third-country competition is clothes, followed by linen. Industrial fabrics have been affected to a lesser extent.

The January 2005 WTO mandated phase-out of worldwide cotton quotas, coupled with the economic recession, have dealt a strong blow to Spain's textile industry, as domestic demand has weakened and companies have limited access to financial resources. As a result, Spain's domestic textile industry has begun to downsize. According to the Association for Industrial Textile Cotton Processing (AITPA), production declined about

26 percent during the first half of 2009. Between 2000 and 2008, 25 percent of the domestic apparel industry stopped production. To combat the effects of globalization and remain competitive, some companies have opted to close their Spanish operations and are resuming production in lower-cost third countries.

Since 2006, EU and extra-EU imports of cotton products have declined steadily reflecting reduced domestic supplies and increased competition in world markets. While the export of cotton products is expected to begin recovering in 2010, domestic demand should remain weak.

### **Bulgaria**

Since 2000, the textile industry has developed very well due to foreign investment in knitting and clothing plants. Most if not all raw materials are imported. Turkish, Greek, Italian, French, and German companies operate in Bulgaria, where they import fabrics, use local labor and foreign brands/trade marks, and export to suppliers and contractors, usually in Western Europe. In the yarn industry, local knitting companies produce apparel under the same inexpensive labor cost, especially in mountain areas in Southern Bulgaria. About 60 percent of current plants were established at the end of the 1990s and early 2000s.

Today, the textile industry includes between 3,000 and 4,000 plants (90 percent are small-to-medium sized companies with staff of between 100 and 300 workers) and it provides jobs to 150,000-170,000 employees. More than 92 percent of finished products are exported, and many new plants own trademarks as well. Clothing produced in Bulgaria is considered of medium price and quality classes. Over the past two to three years, Bulgaria has had to compete in clothing and apparel exports with Romania, Macedonia, Ukraine, and Belarus where labor costs are lower.

In 2007, exports of textiles were valued at €1.9 billion with a positive trade balance of €300 million. In 2006, the picture was similar with exports worth €1.78 billion, imports worth €1.46 billion, and a positive trade balance of €324 million. Exports increased 7 percent from 2005 to 2006. In general, knitting products account for 48 to 50 percent of total textile exports.

The recent economic slowdown negatively affected the textile industry and its consumption of cotton lint, yarns, and fabrics. In December 2008, knitting and clothing/apparel plants reported lower sales, lack of demand, and consequently lower consumption. On average, the industry reported good coverage by contracts until April 2009. However, the overall decline in placed orders for exports was estimated at 10 percent to 20 percent. In the second half of November 2008, the industry reported a reduction in textile production of 5 percent, in apparel 13 percent, and in knitting products 11 percent. In 2009, most small plants were near bankruptcy or reducing staff. Some estimates indicate that the textile industry reduced its personnel by one third in order to save on costs. Shrinking bank credit and its related cost posed another challenge in 2009. Overall, knitting factories have performed better than clothing and apparel plants during the global financial crisis.



## **United Kingdom**

The domestic milling industry is a major importer of apparel and home textiles, and finished imports will likely increase as competition from low-cost overseas manufacturers intensifies. Retail sales have dropped off, with sales of textile products among the hardest hit. Several large retailers, such as Marks & Spencer, have announced redundancies and store closings in response to falling revenues. Both consumers and retailers have become much more cost sensitive, prompting buyers to show more interest in sourcing options in places like Bangladesh, Indonesia, Vietnam and Cambodia due to the low costs of production in those countries. In general, brands and retailers are showing greater openness to changing suppliers if such a change will bring cost savings.

The long-term impact of the current recession on UK consumers and purchasing behavior may be minimal. The country will certainly remain one of the world leaders in terms of textile consumption and consumers will likely return to old buying patterns once the economy recovers. The issue of sustainability in textile production has remained a prominent issue in the minds of British shoppers despite the fact that environmentally friendly products sell at a premium. In the long-term, the concept of sustainability in consumers' minds will likely expand to encompass broader social responsibility issues, such as human rights. This will limit, to a certain extent, both the sourcing and pricing options of the brands and retailers that cater to such concerns.

## **Other EU Processors**

Please contact the FAS EU office directly:

[http://www.fas.usda.gov/ofso/overseas\\_post\\_directory/ovs\\_directory\\_search.asp](http://www.fas.usda.gov/ofso/overseas_post_directory/ovs_directory_search.asp)